

Strategies for Small Farmers Marketing Improvement in Nepal

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General Background

In view of the fact that at the end of 1984-85, Nepal will be completing the execution of six consecutive development plans representing nearly three decades of planned development period, it is now a high time to evaluate the performance of agriculture sector, the dominant sector of the economy, which still provides livelihood for 91 percent of the country's 16 million population. Agriculture and irrigation has been accorded top priority in all of the development plans and has consumed an expenditure of Rs.7419 million (24 percent of the total development expenditure incurred in all plans) till the end of 1983-84. There have been many notable achievements in basic infrastructure development like establishment of numerous research and experiment farms, organisation and expansion of institutions for extension and dissemination of improved technology, supply of credit and farm inputs, construction of numerous irrigation system and development of technical manpower. However, the performance of this sector is far from satisfactory. The production and productivity of major crops have not much improved. About 87 percent of the total cultivated land still depends on rainfall for crop water requirements. As a result, farm output and income of the rural masses are still very disgusting and the rate of agricultural production is far behind the original estimates. In the last 30 years, one hardly noticed any significant improvement or change in the lives of the rural masses. The fruits of development have failed to penetrate the major segment of the rural population comprising small farmers, tenants, agricultural workers, village artisans etc. resulting in meagre exploitation of production potentials even after a lapse of nearly three decades. It is partly due to inconsistent, incomprehensive and static agricultural development strategy and partly due to inefficient and ineffective management of the delivery mechanisms.

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It is very unfortunate that small farmers and other lower strata of our peasantry which forms three fourth of our population have always remained out of the main stream of our development efforts. The tremendous production potentials of this segment have not been well-attempted to be mobilised. The exploitation of local resources through the active participation of rural masses has remained a mere slogan due to lack of proper mechanism and well thoughtout consistent action plans. The other shortcoming observed in our strategy is that production phenomena has been viewed in isolation and adequate attention has not been paid to build up backward and forward linkages. Thus, it has also become quite necessary to retune the agricultural development strategy so as to cater to the needs and the potentials of the rural economy.

Scenario of Small Farmers Development

Until the advent of the Small Farmers Development Programme (SFDP) initially launched as FAO/UNDP sponsored ASARRD action research projects in two panchayats of the country—one at Mahendranagar, Dhanusha and the other at Tupche, Nuwakot in 1975-76, no deliberate endeavour was made to expedite the development potentials of the small farmers. However, the successful implementation of two SFD pilot projects has marked a beginning of a new era of institutional support to the hitherto neglected low income group of our peasantry. The programme is a multidimensional approach to assault rural poverty through the involvement and participation of the target group. The SFDP operation is built up in following premises:

- a. Organising 10 to 15 small farmers into groups for improving their receiving mechanism.
- b. Assisting and involving the groups in various income raising economic activities.
- c. Striving for the optimum use of existing potentials for production.
- d. Developing group personality to strengthen bargaining power and viability of group members.
- e. Integrating various social programmes in support of the well-being of the disadvantaged group.

As specified by the name, the programme in action is not strictly confined to the small farmers only. Rather it has intended to cover entire group of rural poor like small farmers, marginal farmers, tenants, landless agricultural workers, fishermen and village artisans.

The criteria used to define small farmers and other rural poor have differed from country to country due to varying socio-economic pattern among the countries. *The Agricultural Credit Review Survey, 1976-77* of Nepal Rastra Bank has defined small and marginal farmers in Nepal on the basis of the landownership. A farmer with less than 0.37 ha. of land in the Hills and 1.85 ha. in the Tarai are considered as small farmer and a farmer with less than 0.13 ha. in the Hills and 0.54 ha. of land in Tarai are categorised as marginal farmers. However, this definition seems inadequate because it has failed to take into account

the size of family and other factors affecting the productivity of land and income of the farmers. The Agricultural Development Bank, the implementing agency for the SFDP has followed a definition based on income. It has fixed a ceiling of per capita income of Rs. 950.00 as an eligibility requirement for joining small farmer groups in the SFDP areas. A farmer or a tenant or an agricultural worker or a village artisan with per capita income less than Rs. 950.00 (which is the average rural per capita income) is considered as a small farmer or a rural poor. This definition also does not seem to be practical and should be made compatible with the changing context.

The evaluation reports on SFDP programmes have appreciated the programme as an effective approach to the socio-economic upliftment of the weaker section of our rural society. The programme so far has benefited about 30000 low income rural households by providing total credit amounting Rs. 95.3 million (as of July 1984). Numerous other services in the field of health, education, family planning, drinking etc. also have been rendered to the direct benefit of the low income group. The programme is in operation through 121 projects in 46 districts covering 150 panchayats and 39 more projects will be added up within the period 1984-85. Although the programme expansion seems to be much faster than it was planned originally, the coverage is meagre if a full view of the total number of small farmer families, their requirements and the total numbers of panchayats is taken into account. Thus, it seems to be an appropriate time now to evaluate the programme in aggregate and reset the speed of its expansion by taking adequate view of the needs of the economy.

Institutional and Policy Supports to Small Farmers Marketing

The focal point of all the agricultural development plans and programmes have been to raise the income level of farmers. This can be attained in two ways: one by increasing their production with the application of better technology and the other by ensuring better price for their produce. Moreover, the latter could also be an effective incentive for the former. Currently, both are out of farmers effective reach due to many limitations and constraints. The latter which can be attained through the better arrangement of marketing will be the concern of this paper. Absence of organised marketing has been felt as one of the major bottlenecks in accelerating the progress of agriculture in general and small farmers in particular. Small farmers mostly sell their produce to village traders or merchants or local market (*Hat*). They are forced to make earlier sale as compared with the large and medium farmers due to lack of their retaining capacity.

Keeping the situation in view, His Majesty's Government of Nepal has initiated few steps with the objective to improve the marketing system. The establishment of Department of Food and Agricultural Marketing Services (DFAMS), the Rice & Paddy Exporting Companies and the Dairy Development Corporation, the organisation of Sajha Societies under the Sajha Programme, the installation of Flour Mill and other processing industries

can be cited as positive attempts on the part of the government to improve marketing of agricultural produces. However, services of these organisations have remained inaccessible to most of the small farmers

Since last year His Majesty's Government of Nepal has also initiated to declare support price for main food crops and cash crops before the onset of the harvesting season with a view to ensure better price to the producers. However, in the past this policy has remained confined to the paper except in the case of cash crops like sugarcane and tobacco.

Similarly, when Paddy Export Companies were operative their procurement of paddy from small farmers was virtually non-existent. The Sajha Societies whose one of the main objectives is to provide marketing facilities to the farmers and which once had made a very positive and encouraging beginning towards the marketing of farm produce, seem to have gradually deviated from rendering this important service to their members. They seem to have become more indulged in marketing of inputs and consumer goods and extension of credit to their members.

The SFDP, though able to make great dent to bring visible changes in the lives of rural masses, also has failed to stress on the marketing aspect of farm products. Of course, there are some projects which have initiated marketing activities with remarkable result in the income of the small farmers. Small farmers groups have begun marketing of farm products like paddy, wheat, livestock, fish, milk, fruits, vegetable etc. in the SFDP areas. But these activities are limited to few projects. It needs to be expanded to the other projects in due course of time. There are also few experiments of group marketing successfully conducted on the initiative of the Department of Food and Agricultural Marketing Services (DFAMS) in some districts. They need to be further strengthened and expanded to the other potential areas

Problems and Constraints of Small Farmers Marketing

Absence of Grass-root Organisation

Individually small farmers are weak and their resources and initiatives are very low. In respect of food grains, they do not have surplus if their total annual food requirement is taken into account. However, almost all of them sell some portion of their food production to meet their current cash needs. They most often make distress sale to local traders immediately after harvest at a very low price. There is no formal or informal grass root organisation to look into their interest and improve their retaining capacity and raise bargaining power.

Lack of Credit Facilities

In many cases, they fall victim to the distress sale due to their debt obligations to local money-lenders or traders. They are forced to sell their produce to redeem their debt. Institutional credit is still a luxury to majority of the small farmers. In many cases, even

when credit is made available, it meets only part of their production cost. They have to borrow from local money lenders or traders or landlords to meet their consumption and other social expenses, for which, they often have to pay one md. of paddy or wheat as interest on a credit amount of Rs. 100 in a period of 4 to 6 months. Moreover they are bound to sell their produce at a very low price. They have to pay 60 percent per annum at the minimum even when they are lucky to find some soft lenders. Thus, absence of institutional credit to meet their basic needs also has been a main barrier to small farmer's marketing.

Lack of Determined Government Support or Attempt

Supports and services to be extended by Government and other agencies concerned with marketing have never been materialised. Even when announcements of such services have been made, they have hardly appeared in practice. Factors affecting the delivery mechanism like market-link road, collection depots, transport, warehouses are very much inadequate, if not absent. Price stabilisation measures like direct procurement and support price are non-existent. When a support price has been announced, it has often been done late and institutions responsible for procurement are found unprepared and reluctant to buy directly from farmers and farmers' cooperatives. They are found more interested in buying from middlemen or traders.

Poor Access to Processing Facility

The irony most often observed in the agricultural marketing process in Nepal is that although the price of raw produce gets lowered during the period of harvest when small farmers make sales, the price of processed products like rice and flour remains unaffected. But since storage and processing facilities are out of their reach, traders and millers make fortune out of the small farmers' sweat.

Lack of Guidance and Information Service

There is no dispute on the point that small farmers need external assistance in the beginning to harness their potentials. Small farmers as individuals may be weak and insignificant, but could be a strong reckoning force if organised into a group or a cooperative. However, there have been no attempt on the part of government to create awareness and provide guidance in realising their marketing potentials. They are ignorant of even basic market information. Extension services on marketing is totally absent.

Lack of Marketing Programme in Cooperative

Cooperatives are the only grass-root organisations widely spread to the interiors of the rural areas. They can be effective vehicle to expedite small farmers marketing, if they are moulded in a suitable manner. More than 235 warehouses were built by the cooperatives with a capacity exceeding 52 thousand MT on the Agricultural Development Bank loan and government assistance with the aim of providing effective marketing services to their mem-

ber farmers. But less than 10 percent of the warehousing capacity has been used for the marketing purpose, which has caused them to incur heavy losses.

Issues and Recommendations

Marketing Policy

It is unfortunate that an agricultural country like Nepal does not have a well-spelt out marketing policy even after the implementation of six development plans. In fact, marketing aspect was never seriously taken up by policy planners. Effective marketing system could be instrumental not only to raise the income of the small farmers but also to boost up production, as it provides a greater incentive to producers. Not forgetting the fact that the price mechanism in Nepal is affected by the situation in the world in general and to a large extent by the closest neighbour India yet no concrete efforts have appeared in practice to counter act in the adverse situations. There is dire need of not only operational procurement and support price policies but also the maintainance of buffer stocks and provision of incentive prices to the producer farmers. Even the adjustments in the existing marketing system could lead to a more meaningful returns to farmers as exemplified by the cooperative cardamum marketing in Ilam district initiated by the Agricultural Development Bank in 1977-78. A small cardamom grower with 5 mds. of production could raise his earning from Rs. 2000/- to Rs. 5000/- when he was given pre-harvest credit and access to organised marketing facility. It had not only benefitted the farmers, but also helped the cooperative society and the Bank in realising the overdue loans. The main frustration of the farmers today is lack of remunerative price for their produce, which if let to continue will cause a great set-back on our production programme. The distress sale of wheat produced by farmers last year (1983-84) due to lack of access to marketing has killed their incentive and zeal to produce more. But the government and the agencies concerned seem to have failed to understand the magnitude of the problems. Thus the time is now quite right to adopt a well-thought out consistent and comprehensive long term marketing policy with special focus on small farmers, if agricultural development is to be geared to progress. It may not be unpertinent to suggest for organising a 'National Agricultural Marketing Board' with high level representation from ministries and agencies related with marketing to determine and review marketing policy and issue guidelines to agencies concerned from time to time.

Marketing Mechanism

The country also lacks proper marketing mechanism to cater has needs of the farmers. No marketing policy can be operative without proper marketing mechanism. The Department of Food and Agricultural Marketing Services together with other line agencies has to evolve a long term strategy to build up a practical and viable mechanism capable of fulfilling the needs and interest of the small farmers by way of their own involvement. The Sajha Societies, if properly oriented, developed and supported could be a viable vehicle in promoting small farmers marketing effectively. The Dairy Cooperatives of Morang and Sunsari are the outstanding example for this.

The beginning of cooperative marketing can be initiated by the group of small farmers with common interest and problems, which can be interwoven into an inter-group or a cooperative in due course of time. The success of the programme, in the long run, will depend largely upon the effectiveness and cohesiveness of the groups. Since the task of organising groups involves a lot of skill and experience, it may be practical and effective to start the programme with SFDP groups which are already in operation with number of other activities. It is very much essential to build up a bottom-up linkage with national level organisation of their own in due course of time, if this mechanism is to be made fully operational and strong. A model is suggested in Figure I.

Coordination

Coordination is one of the major problems or issues more often raised and discussed in most of the forums, but never solved. As the success of small farmers marketing also depends largely on the coordination and cooperation of the agencies concerned, a proper mechanism has to be evolved to ensure coordination occur in practice. Towards this end, the DFAMS may be designated as coordinating agency, to work jointly with related agencies in designing a single and unified marketing programme spelling out clearcut responsibilities of line agencies instead of each and every institutions working it out separately. The Ministry of Agriculture has been trying this approach in its annual programming for the last four years and has succeeded in generating better coordination and cooperation among line agencies. However, to attain better result, an approach has to be laid down to initiate coordinated action plans on small farmer marketing from the grass-root level. There has to be a system of continuous monitoring and follow up of the action plans from the coordinating agency. The long term approach for improving small farmers marketing has to be directed towards integrated cooperative marketing system which will ensure better viability as well as bargaining power of small farmers. In view of the increasing working relation of cooperatives with the departments and agencies under the Ministry of Agriculture, it is deemed very necessary to bring the Department of Cooperatives also under the Ministry of Agriculture. It will facilitate better coordination among line agencies.

Marketing Extension and Education

In a period of almost three decades a need for marketing extension service was not adequately felt and as a result no effort has been made towards providing this service to the farmers. In fact, there is no agency responsible to discharge this service. Extension need is fully ignored. Hence, it is a high time now to think over dissemination of this service by designing a special programme for this purpose. As the success of any programme largely depends upon the availability of the cadre, capable of undertaking the job efficiently, the DFAMS should organise a Training Cell in its organisation and provide training to the extension workers. Instead of recruiting a new group of staff, it will be more appropriate to impart the knowledge and skill on marketing extension to the JT and JTA's of the Department of Agriculture, the Agriculture Assistants (who are

progressive farmers), the Group Organisers (GO's) of the Agricultural Development Bank and the Managers of Sajha Societies and use them in the aforesaid task too. As they are stationed in the grass-root level, they can be the harbingers in promoting marketing system. In order to make them more effective, they need to be supported with small farmers oriented actions plans which need to be further monitored and followed-up periodically from the central level. Provision of marketing trainings for the farmers also should be made adequately to expedite their involvement. It may require the creation of a Marketing Promotion Unit in the DFAMS to monitor the action plans.

Small farmers marketing has a very little chance to succeed without creating a linkage with credit programme. Small farmers more often have fallen victim to distress sale due to their dependence on informal source for credit. Therefore, provision should be made for production as well as consumption credit (it may be termed marketing credit if the bankers are skeptical of the name consumption credit) before the harvesting of a crop. They can be provided initially an advance credit of upto 35 percent of the estimated value of produce to be brought to the group or cooperative for sale from 35% to 40% of the amount and secondly after the delivery of produce the rest (including dividend) can be disbursed after the sale of the produce by the group or cooperative. It will free them of the exorbitant interest rate as well as the distress sale. Thus credit has to be the backward linkage of marketing programme and vice versa.

Institutional Support

It may take quite some time for a Federation of Farmers Organisations to come up. Therefore, in the initial phase, the government agencies like Nepal Food Corporation, Salt Trading Co., Flour Mills etc. have to extend full support to the farmers organisations. They should be directed to make their purchases only from the cooperatives and other formal and informal farmers' organisations. If they are asked just to give priority, they are not likely to oblige. Besides, the DFAMS should develop market yards for various products in Kathmandu as well as in the district centres to facilitate buyers and sellers to assemble at a place where they can make competitive bidding.

Use of Traditional Traders

It may be very difficult to take radical step of bringing down the traditional trading system at once which is also an institution of our society. Therefore, it may be appropriate to chalk out ways and means to make positive use of it in the interest of the small farmers wherever possible. Reconciliatory approach may bear more fruitful result than that of confrontation. One possibility could be to collect the produce by the group and sell the bulk of produce to the traders or millers. It will not only protect their interest but also make their task easier.

Expanding Processing and Warehousing Facilities

Most of the production activities in Nepal have severely suffered from lack of adequate

processing industries. Production potentials of various commodities have remained untapped due to the absence of processing services. Enormous potentials of growing high value tea crop in the Hills of the Eastern Region and varieties of temperate and tropical fruits and a number of vegetables and cash crops and raising livestock in the different parts of the country have not yet been effectively tapped for want of allied facilities like processing, storage and transportation. Thus, it has become important to expand the facilities so as to make them accessible in the village level. Access to such facilities will not only improve the marketing mechanism but also boost up production of various crops. It is suggested that the facilities need to be created in group and cooperative level, wherever feasible. But initially they have to be supported with guidance and supervision on management.

With the introduction of new appropriate technologies like water turbine and multipurpose improved water mill there exists tremendous potentialities for expansion of processing facilities even in the remote areas in the Hills. Nevertheless attempts should be continued to devise low cost appropriate technologies to improve traditional processing technologies used by the farmers and to make effective diffusion of some proven technologies. To provide support, the Agricultural Development Bank has also been giving emphasis on the financing for these activities.

Creating Food Bank

Marginal and subsistence farmers are often caught in the vicious cycle of having to sell their produce immediately after harvest or production to pay their debt and then of having to go into debt again three or four months before the next harvest to buy food for their families. As a strategy to initiate group marketing and to gradually create self-reliance on food grains, it seems pertinent to motivate the small farmers to start Group Food Bank scheme. This scheme has a fair chance of success in the groups of SFEP project areas. It will help the farmers to save them from the malpractices and usurious interest rate of traders and money-lenders. They may borrow from the bank when they are short of food and pay back again after the harvest. It, in fact, is not a new concept in Nepal. This kind of informal food banks named as '*Dharma Bhakari*' are operating in many places. The '*Sano Kalpana Sanstha*' of Madhubasa, Dhanusa which has been operating for about 20 years is a brilliant example of the success of this scheme. It has been a great help to the small farmers there. The group to-day owns four bigahas of land and many other assets built up with a few mds. of paddy contributed by the members.

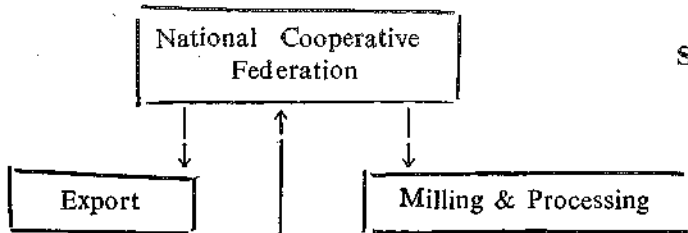
Production Planning

Price of agricultural produces are often very unstable in Nepal. Price of wheat this year is about half as compared with the price last year. On the other hand, the price of jute is more than double and that of mustard seed nearly double as compared with the last year. This phenomena has created dissatisfaction and frustration among the producers. There is also so far no mechanism of price and demand forecasting for various crops and

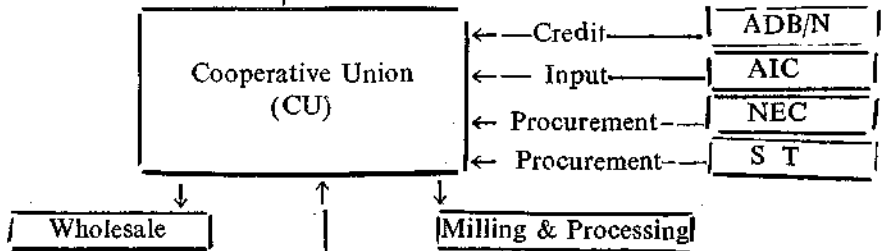
Figure—1

Support Services

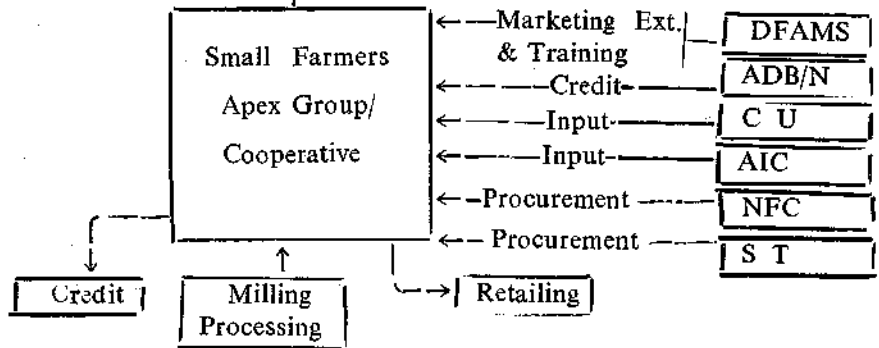
National Level



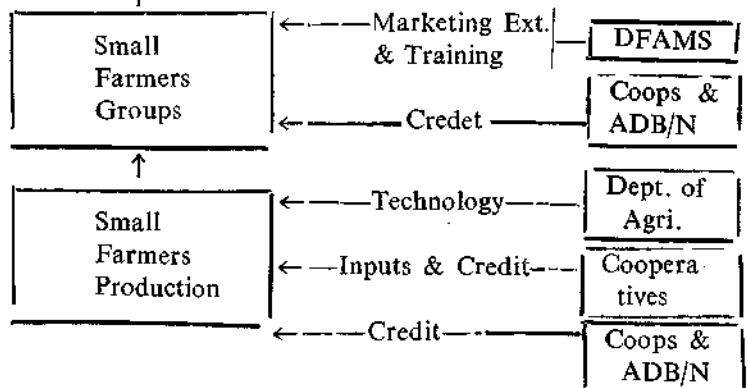
District Level



Panchayat Level



Village Level



ADB/N = Agricultural Development Bank, Nepal

DFAMS = Department of Food and Agricultural & Marketing Services

AIC = Agricultural Inputs Corporation

CU = Cooperative Union

Coop = Cooperative Society

NFC = Nepal Food Corporation

S T = Salt Trading

planning of production accordingly. It is strongly felt that this mechanism has to be developed as earliest as possible, so that crops which are more in demand and which have more probability for better price could be produced. To ensure the success of this mechanism, it is important to develop cadres of capable extension workers to provide guidance to farmers and make supply of required inputs by agencies concerned in time.

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